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Report Highlights:

Nigeria's poultry sector is coping with tight domestic corn supplies and an inability to import because of the GON's 70 percent import duty. Chicken meat imports now supply 25 percent of national demand but all enter illegally. New Customs clearance procedures have increased duty payment costs on most containerized food imports, created massive container congestion in ports, and is discouraging import activity.

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Lagos [NI1], NI

Executive Summary

Nigeria's poultry sector is coping with tight corn supplies and high prices resulting from a poor harvest and an inability to access imported grain. From the early 1980's until the late 1990's, Nigerian poultry production fell dramatically as foreign investment in the sector retreated and large-scale producers closed their operations. Some revival was experienced in 1999 and 2000, but the industry is now struggling to maintain its output levels.

With poultry meat production failing to meet domestic needs, local demand is being met by imports. Imports now account for 25 percent of total poultry meat consumption in Nigeria. All poultry meat imports currently enter the country illegally, successfully avoiding payment of the GON's import duty which was revised upward last January to 75 percent. Nigerian poultry producers cannot compete with imported chicken because of their higher cost structure which results from domestic corn prices which exceed \$300 per ton, and the absence of lower-cost, imported corn due to a 70 percent duty. Some relief to the local poultry sector may be offered by the initiation of new customs clearance procedures last May which call for 100 percent inspection of incoming containers. It is envisioned that this will ultimately result in a curtailment of importer duty avoidance schemes. In the near-term, however, it has resulted in a backlog of containers being held in Lagos port and a sharp decline in import volume for nearly all high-value food commodities.

The local poultry industry has repeatedly approached the GON to lower its duty on corn so that it may access lower-cost U.S. grain, but the GON to date has not been responsive out a belief that encouraging private sector imports of corn will create disincentives to Nigerian corn growers. With the Obasanjo Administration looking at re-election in 2003, the corn import issue has significant political overtones.

FAS Lagos successfully worked over the past year with the local poultry industry to achieve the removal of the import ban on corn. We are now encouraging the poultry sector to lobby the GON to reduce its import duty based upon the rationale that this will permit the industry to expand its production and generate export sales in other west African countries which fall under the Economic Community of West African States. ECOWAS trade rules permit poultry produced in Nigeria using imported grain to be exported to other ECOWAS countries free of duty. A growing poultry industry which achieves greater efficiency and a lower cost structure will assist Nigeria in attaining increased food security. This will be done by offering meat and eggs in the local market at affordable prices which will significantly improve the protein deficient diets of most Nigerian consumers.

FAS Lagos is organizing a Nigerian team to attend the Atlanta Poultry Exhibition next January. Following this show, Post hopes to utilize USDA's Cochran Program to provide the technical training now being requested by the local poultry industry. The training will be directed at meeting the industry's immediate needs to substitute imported wheat and other energy alternatives for corn in its feed formulas.

Production

Supported by significant foreign and domestic investment, Nigeria's poultry sector grew rapidly for more than two decades following independence in 1960. Beginning in the mid-1980's, however, the sector went into a protracted period of decline prompted by the GON's decision to ban imports of corn. The situation was exacerbated by the collapse of the Nigerian economy. This resulted in price realignments which weakened purchasing power and raised the cost of poultry inputs and products considerably. The annual production of commercially reared birds fell from a peak of 40 million in 1982 to 10 million in 1997.

Nigeria's poultry production began to recover in 1998. The annual slaughter of commercially-reared birds increased to approximately 18 million by the end of calendar 2000. This figure included 10 million broilers and 8 million spent layers. The increase was partly attributed to a number of fiscal incentives introduced by the GON to stimulate growth in the sector. The GON reduced tariffs on all imported premix components (vitamins, micro-nutrients and antibiotics) to 5 percent in the mid-1990's. The import ban on day-old chicks and parent breeding stock was lifted in 1998. The import ban on corn also was lifted in January 2000, but was replaced by a 70 percent import duty.

The industry is now undergoing a degree of restructuring as it copes with higher production costs and its inability to pass these costs on to consumers. A tendency is noted for smaller poultry farmers, unable to maintain their profit margins, to sell their operations to larger firms. These larger producers are holding to a long-term view, and have reduced their cost structures to remain viable. Overall demand for day old chicks within the industry remains healthy based upon the ability of the larger players to continue operations. Many of these larger firms anticipate that the GON's ongoing efforts to reduce the volume of poultry meat that enters Nigeria without paying full duty treatment will eventually return them to profitability.

Animal Feed Costs Squeeze Poultry Profitability

At present, the average cost in Nigeria of producing a typical broiler (live weight of 1.7 - 1.8 kilograms/dressed weight of 1.2 - 1.3 kilograms) is estimated at 300 naira (\$2.70) for large-scale producers. With the average wholesale price for whole, frozen birds running at 290 - 300 naira, profit margins exist only for the most efficient producers. Controlling animal feed costs is critical in this industry given that it represents approximately half of broiler production costs.

Animal feed costs have risen sharply in recent months in response to tight corn supplies. The animal feed industry is now paying as much as 38,000 naira (\$340) per ton for corn, twice the price of a year ago. Although the local industry would like to utilize U.S. corn, which has an fob price of less than \$100 per ton, it has been stymied by the GON's decision to maintain its duty at 70 percent. Potential importers are quick to point out that when port surcharges, the GON's value added tax, and other assessments are included, the effective import duty on corn increases to more than 80 percent.

Animal feed producers and poultry farmers have responded by adopting a "least cost" approach for their feed formulation. This calls for the substitution of lower priced energy sources such as wheat for corn. Many within the local industry have reduced the amount of corn being used in their poultry feeds by 30 to 40 percent. Imported soft wheat, which attracts an import duty of only 15 percent, has become the grain of choice for poultry feed production which accounts for 95 percent of Nigeria's total animal feed output. The industry is not clear as to how far it can go in substituting wheat for corn. In order to improve the digestibility of local chicken feed formulated with a high wheat content, enzymes are being

added. Local poultry producers have asked FAS Lagos for technical assistance in guiding them as they seek energy alternatives to corn. FAS Lagos proposes to utilize USDA's Cochran Program to provide technical training for a Nigerian poultry team being organized to attend the Atlanta Poultry Exhibition next January. Increased utilization of grain sorghum in animal feed is limited by high domestic prices and the continuation of the GON's import ban on this grain.

Consumption

Nigeria's total poultry meat consumption is estimated at approximately 100,000 tons. Non-commercial or backyard production accounts for as much as half of this figure, while commercially-reared birds produced in Nigeria adds another 25,000 tons. The remaining 25,000 tons of poultry consumed in Nigeria consists of imports. Chickens make up the lion's share of all poultry consumed in Nigeria. Total per capita chicken consumption for Nigeria's 120 million population does not exceed 600 grams (equivalent to about half a chicken). According to the World Health Organization, Nigerians consume less than 20 percent of the minimum daily requirement for animal protein which helps explain the country's widespread malnutrition.

Nigeria experienced a marked increase in demand for poultry meat over the past 2-3 years. This is largely attributed to an increase in the number of fast food restaurants featuring a chicken menu in major urban areas and growth in sales through institutional catering facilities serving foreign companies operating in the petroleum sector. Most locally-produced broilers are marketed to higher income groups in the major cities of Port Harcourt, Lagos and Abuja. This market segment takes frozen, whole birds. In contrast, imported chicken consists almost entirely of frozen leg quarters. As much as two-thirds of all imported leg quarters are derived from spent hens, and are sold largely to low- and medium-income consumers.

Trade

At present, all imported poultry meat enters Nigeria illegally and evades duty payment. All imported chicken is being supplied by European exporters, with most coming from the Netherlands and Belgium. Legal poultry imports are discouraged by the GON's decision to increase its import duty from 55 percent to 75 percent in January 2001. When the GON's value added tax, port surcharges and other tax assessments are included, the effective duty rate increases to 85 percent. Additional shipping costs for legal poultry imports also must be factored in due to port congestion resulting from the initiation last May of new customs clearance procedures. At present, the backlog of containers in Lagos port has reportedly reached 40,000, more than 4 times the normal volume. Importers of high-value food commodities are incurring demurrage charges on their containers because of delays in port clearance. Daily demurrage charges on a refrigerated container in Lagos port is estimated at \$150. Although the Nigerian Ports Authority has promised that clearance of goods will take no more than 48 hours, importers of refrigerated products complain that port clearance is now taking about a week.

Nigerian traders routinely buy from importers situated in neighboring countries. Although the product crosses Nigerian borders without official payment of duties, additional costs are routinely incurred in unofficial payments to Nigerian border officials. After purchasing at a cold storage facility in the neighboring country, the product is moved by truck to the border. At this point, the truck usually is unloaded and boxes of chicken are ferried across the border on the heads of laborers. After clearing the border point, the chicken is re-loaded onto trucks or other vehicles and moved to interior consumption points. Imported chicken often is transported and handled without refrigeration, with food quality and

safety becoming a major concern.

Imported leg quarters provide price leadership in this market. The current wholesale price of illegally imported chicken leg quarters in Lagos is about 210 naira per kilogram. This price is almost 30 percent below the wholesale price of locally-produced chicken. Profit margins for Nigerian poultry producers are likely to remain depressed as long as imported chicken continues to compete effectively in this price sensitive market.

The new customs inspection procedures instituted last May call for 100 percent inspection of all containers entering Nigerian ports. The GON hopes that this will lead to a reduction in import avoidance schemes routinely utilized by Nigerian importers. The new customs clearance guidelines call for significant penalties to be imposed upon those containers found to be inaccurately documented. Although the focus on eliminating customs related problems has been on ocean ports, the local poultry industry is hoping that the volume of smuggled chicken entering at border points with neighboring countries also will be reduced.

The continued expansion of the Nigerian poultry industry offers sales opportunities for U.S. soybean meal and grains such as wheat and corn. Soybean meal imports in calendar 2000 reached a record 30,000 tons, up from 12,000 tons in 1999. U.S. product accounted for 40 percent of this volume. Soybean meal imports in 2001 may reach 40,000 tons, with close to half coming from the United States. At least 50,000 tons of wheat is being imported this year for feed compounding. About one-third of this amount is likely to be supplied by the United States.

Policy

Although the GON officially lifted its ban on poultry meat imports in 1998, imports remained blocked by a refusal of the National Agency for Food and Drug Administration and Control (NAFDAC), an agency of the Ministry of Health which regulates all food imports into Nigeria, to issue needed import documentation. NAFDAC maintained that the ban had been improperly lifted and, therefore, refused to cooperate with importers. Approximately 3 - 4 containers of U.S. chicken were imported in late 1999/early 2000 but were unable to leave the port of Lagos. After intervention by FAS Lagos, NAFDAC agreed to allow the clearance of the containers from the port but instructed that no additional chicken should be shipped to Nigeria since in their opinion the import ban was still in force. In response to FAS Lagos' continued dialogue with NAFDAC, correspondence was received last May confirming NAFDAC's willingness to issue import documents for poultry meat. Although this trade barrier was successfully addressed, no import activity has resulted because of the January increase in the Nigeria's import duty on poultry meat to 75 percent.